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Overview of economic and social conditions in Africa, 2017

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith an overview of recent economic and social developments in Africa for 2017.

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Overview of recent economic and social developments in Africa

[Original: Arabic, English and French]

I. Introduction

1. In 2016, overall economic growth in Africa declined drastically, dropping to 1.7 per cent, lower than the developing country average of 3.8 per cent. This growth performance was influenced greatly by outcomes in the six largest African economies and masks the remarkable growth, by at least 3 per cent, achieved by 32 countries in 2016. The resulting positive growth was generally underpinned by private consumption and investment (in infrastructure in several countries), made possible by improvements in the business and investment environments in many countries.

2. Even though commodity prices started to recover from the beginning of 2016 after falling for the previous two years, they still remain below their 2014 levels. This notwithstanding, growth in all the economic groups (oil-exporting, oil-importing and mineral-rich economies) slowed, registering 0.8, 2.5 and 2.2 per cent respectively in 2016. This slowdown led to uneven growth performance among the subregions, with East Africa recording the highest growth.

3. At the social level, the poor in Africa live much further below the extreme poverty threshold than in other regions, with an average consumption at about 60 per cent of the international poverty line. Despite numerous gains, inequality remains a key development challenge in Africa. The average within-country inequality levels in Africa are high and hamper the poverty-reducing effect of economic growth. Although significant progress has been made on the continent in terms of gender, gains have been uneven across countries and subregions and gender inequality remains a key development challenge in Africa.

4. The continent's medium-term prospects remain positive, buoyed by strong domestic demand and investment (particularly in infrastructure), a robust service sector, recovery in commodity prices and the focus placed by oil-exporting countries on non-oil sectors. Downside risks remain, however. The slower recovery in the global economy, consequences of the decision by the United Kingdom of Great Britain and Northern Ireland to leave the European Union, or "Brexit", on the European Union and other major global economies, uncertainty in the policy orientation of the new United States administration, the continued economic slowdown in China, and also weather-related, political and security risks, continue to pose a challenge for African countries. The long-term growth outlook for Africa is still promising, however, as its underpinnings remain relatively strong.

II. Developments in the global economy and their implications for Africa

5. Global economic growth declined marginally, from 2.5 per cent in 2015 to 2.3 per cent in 2016 (figure 1), reflecting a slight decline in growth in gross fixed capital formation (investment) and households' final consumption. The subdued global growth prospects are underpinned by persistently weak fundamentals, primarily in emerging markets and developing economies, mostly due to soft commodity prices, diminished investment, contracting trade, weak demand and rising inflation. Medium-term prospects appear slightly more positive, however, as growth is forecast to increase to 2.7 per cent in 2017, owing to the predicted

stronger performance in emerging and advanced economies. This global decline had significant implications for African trade and investment performance.

6. In developed economies, growth dropped from 1.9 per cent in 2015 to 1.8 per cent in 2016 and is expected to oscillate around 1.9 per cent in 2017. This is explained by the weak and fragile growth in many mature economies. In the euro area, recovery continues, with growth reaching 1.9 per cent in 2016, although impeded by Brexit. For its part, the United States slipped from 2.4 per cent in 2015 to 2.2 per cent in 2016 as the energy sector and manufacturing declined against a backdrop of subdued oil prices, relatively high exchange rates and softening among trading partners, all of which impeded growth in the developed countries. Japan's economic growth remains stuck at 0.5 per cent in 2016 owing to weak private consumption and a drop in its Asian trading partners.

7. Economies in transition contracted by 1.2 per cent in 2016, following a slump of 2.8 per cent in 2015, as many commodity-exporting countries were rocked by low prices, political uncertainty and a delicate international environment. The Russian Federation experienced negative growth of 1.9 per cent in 2016, deepened by fiscal retrenchment, and weakening household consumption and investment, exacerbated by international sanctions. By contrast, the countries of South-Eastern Europe experienced positive growth of 1.9 per cent in 2016, thanks to low energy prices and improved economic conditions in the euro area. The decline in private investment in China placed relatively heavy downward pressure on that country's gross domestic product (GDP), which is expected to grow by around 6.6 per cent in 2016, slightly lower than the previous year.

8. The global employment situation remains weak. Unemployment decreased from 6 per cent in 2013 to 5.9 per cent in 2014 (ILO, 2016). The global unemployment rate remained constant at 5.8 per cent in 2016, mainly as a result of labour market improvements in the advanced economies, while several emerging economies, such as Brazil, the Russian Federation and South Africa, struggled (ILO, 2016). In 2017, the unemployment rate is forecast to fall marginally to 5.7 per cent, even though the absolute number of unemployed is likely to surpass the 200 million mark.

9. World inflationary pressures remained muted in 2016, estimated at 0.7 per cent in advanced economies and 4.5 per cent in emerging and developing economies, compared to 0.3 and 4.7 per cent in 2015, respectively. This situation also led to divergences in monetary policy stances, as many large economies maintained or reinforced accommodative measures, while several developing economies were compelled to tighten their monetary policies in a bid to stem rising inflation. In developed countries, the overall inflation rate rose from 0.1 per cent in 2015 to 0.7 per cent in 2016 and is expected to climb to 1.4 in 2017 because of a recovery in economic prices and strengthening of economic activity. Inflation in the United States increased moderately to 1.2 per cent in 2016, after a fractional rise of 0.1 per cent in 2015, as a strong dollar and falling energy and food prices kept inflation in check. In the euro area, low commodity prices and monetary easing policy will pull inflation in the opposite direction, only allowing it to edge up by a mere 0.3 per cent in 2016. Inflationary pressures in developing and emerging economies eased slightly, from 4.7 per cent in 2015 to 4.5 per cent in 2016. Nevertheless, many oil exporting countries faced high inflationary pressures as their currencies depreciated in response to the price shocks (UNDESA, 2016).

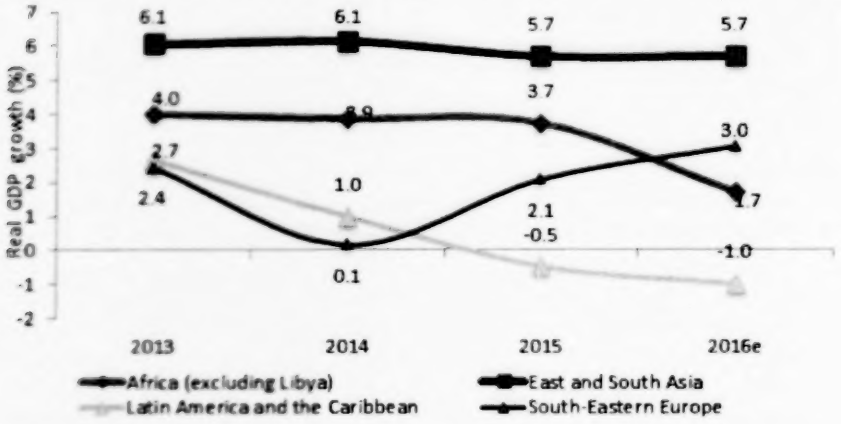
10. The medium-term outlook, albeit optimistic, remains subject to significant downside risks, with the prospects of most advanced economies looking dim. In the advanced economies, concerns intensify over the medium-term growth potential in the light of low aggregate demand, rising inequality and ageing populations. Persistently unfavourable terms of trade revealed the structural vulnerabilities of

several commodity-exporting, emerging and developing economies, which were further heightened by diverging monetary policies of the advanced economies. With reduced fiscal buffers, monetary authorities in many developing and emerging economies are struggling to square growth concerns with managing inflation, capital accounts and business confidence. Moreover, the lower medium-term growth potential of the continent's trading partners dampens its own economic growth prospects. All other things being equal, knock-on effects on African economies might include lower demand for its exports and decreased investment attractiveness, along with higher interest payments, as world financial markets become tighter and increasingly volatile (IMF, 2016a, 2016b).

III. African economic performance and prospects

11. Growth in Africa declined from 3.7 per cent in 2015 to 1.7 per cent in 2016 as a consequence of weak global economic conditions, persistent low oil prices and adverse weather conditions (figure 1). Among the developing economy regions, Africa's growth rate surpasses only that of the Latin American and Caribbean region, which contracted by 0.5 per cent in 2016.

Figure 1
Economic growth in Africa and emerging and developing economies, 2013-2016



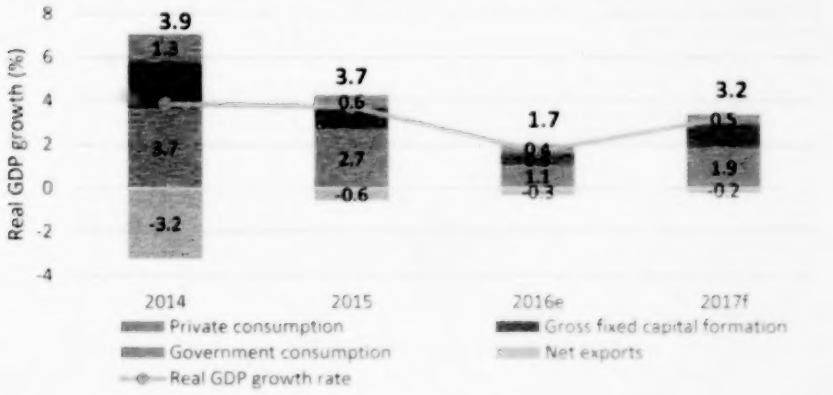
Source: ECA calculations based on UNDESA (2016) and EIU (2016) data.
Note: e = estimates.

A. Private consumption and investment as key drivers of growth

12. The positive economic growth performance in Africa was largely underpinned by the positive contributions of private and government consumption, and also by investment. Government consumption declined slightly, by 0.2 percentage points from 0.6 per cent in 2015 to 0.4 per cent in 2016 (figure 2). Similarly, growth of gross capital formation declined by about 0.5 percentage points, from 1 to 0.5 per cent (mostly because of lower oil prices, slowing demand across the world especially in China, persistent pressures on currencies and import restrictions). The net contribution by exports to GDP growth declined from 0.6 per cent in 2015 to -0.3 per cent in 2016, because of lower export revenues as a result of low commodity prices and subdued external demand. The contribution by private consumption also declined, from 2.7 per cent in 2015 to 1.0 per cent in 2016, because of lower agricultural

production resulting from adverse weather conditions, increase in inflation and a rise in interest rates, such as those experienced in Nigeria and South Africa.

Figure 2
GDP growth and associated components in Africa, 2014-2017

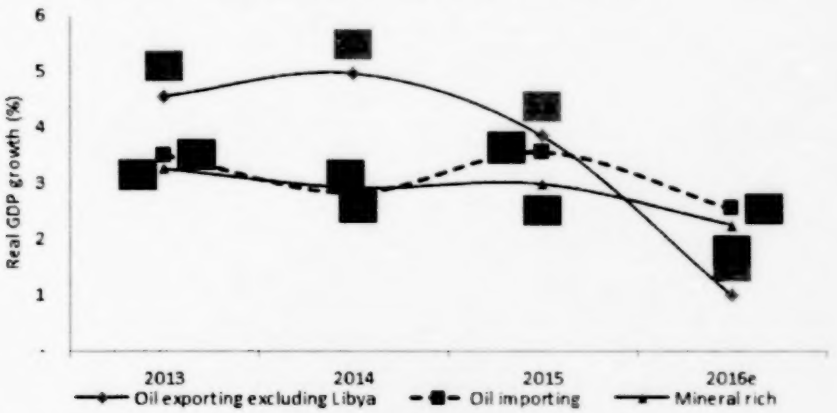


Source: ECA calculations based on UNDESA (2016) and EIU (2016) data.
Note: e = estimates, f = forecasts.

B. Varied growth among economic groups and among subregions, with East Africa in the lead

13. Commodity prices started to recover from the beginning of 2016 after falling for the last two years, but were still below their 2014 levels. This recovery notwithstanding growth in all the economic groups (oil-exporting, oil-importing and mineral-rich economies) decelerated, registering 0.8, 2.5 and 2.2 per cent respectively in 2016 (figure 3). Growth in oil-exporting economies fell from 3.8 per cent in 2015 to 1 per cent in 2016, partly because of the low oil prices observed since mid-2014, despite their recovery in 2016.

Figure 3
Growth performance in Africa by economic group, 2013-2016



Source: ECA calculations based on UNDESA (2016) data.
Note: e = estimates.

14. Among the African subregions, East Africa continued to record the highest growth, growing by 5.5 per cent in 2016, albeit down from the 6.2 per cent recorded in 2015 (see figure 4), mainly driven by good growth performance in Ethiopia, Kenya, Rwanda and the United Republic of Tanzania. Investment by Kenya in infrastructure and its buoyant household consumption have continued to drive growth in the subregion. The weakness of the tourism sector, however, due to security concerns and the high interest rate that has pushed up the cost of credit, could adversely affect growth in the medium term. In Rwanda, the growing agriculture and service sectors are driving growth, although lower commodity (coffee and tea) prices and poor infrastructure will remain a significant barrier. In the United Republic of Tanzania, the robust domestic demand together with the growing services and manufacturing sectors were the main drivers of growth. Growth in Ethiopia continues to be driven positively by public spending in infrastructure. Growth in East Africa is set to continue and lead the rest of the subregions in the forecast period 2017-2018, backed by robust growth in countries such as Kenya, Rwanda and the United Republic of Tanzania and benefiting from low oil prices and expanding public investment.

15. Growth in West Africa declined sharply, from 4.4 per cent in 2015 to 0.1 per cent in 2016 (figure 4), mainly as a consequence of the economic contraction in Nigeria — the continent's largest economy — caused by depressed oil prices, falling oil production, energy shortages and price hikes, scarcity of foreign exchange and depressed consumer demand. Similarly, in 2016 growth in Ghana decelerated to its lowest rate in the last two decades. By contrast, Côte d'Ivoire and Senegal performed better over the period, registering robust growth rates of 8 and 6.3 per cent respectively. In Senegal, higher public and private investment, particularly in energy, infrastructure, agriculture, fisheries, tourism, textiles, information technology and mining, continued to underpin the economy's growth. In Côte d'Ivoire, growth was underpinned by improvements in the investment environment and increased infrastructure spending in the transport and energy sectors. Growth in West Africa is projected to increase to about 3 per cent in 2017 and 4.2 per cent in 2018, boosted mainly by an improving economic performance in the region's large economies (such as Côte d'Ivoire, Ghana and Nigeria). Emphasis will be placed on the diversification of investments into non-oil sectors, an increase in investment flows due to the floating exchange rate regime (in particular in Nigeria), the recovery in oil price and increase in oil production and better growth outlook due to improving macroeconomic conditions and increased public investment.

Figure 4
Growth performance in Africa and components of growth by subregion, 2015-2017

Source: ECA calculations based on UNDESA (2016) and EIU (2016) data.
Note: e = estimates, f = forecasts.

16. Growth in Southern Africa dropped sharply from 2.5 per cent in 2015 to 1.0 per cent in 2016, the lowest rate among the subregions. This largely reflects low global commodity prices, drought and electricity outages, tighter financial conditions and low business and consumer confidence that constrained economic growth in 2016. Besides, investment grew only modestly, deterred by the continuing lack of electricity and weak business confidence. Not least, labour productivity has followed a downward trend since 2011. In particular, Angola and South Africa registered very low growth outcomes, while growth in Zambia and Zimbabwe has stalled. By contrast, better growth performance in Mauritius, Mozambique and Namibia counteracted the decline in the subregion's slow growth performers. Economic recovery in Europe and the recent ease in monetary policy spurred on the pace of growth in Mauritius and Mozambique. In 2017 and 2019, however, growth in Southern Africa is forecast to rise to 1.7 and 2.7 per cent respectively, primarily because of the expected investment increases in strategic non-oil sectors, such as electricity, construction and technology, in large infrastructure projects and in mining.

17. North Africa also witnessed a decline in growth, which dropped to 2.6 per cent in 2016 from 3.6 per cent in 2015, mainly because of slower growth in Algeria, Egypt and Morocco. In Algeria, the low oil prices discouraged public investment and private consumption, while in Egypt growth was negatively affected by the dampened performance of the tourism sector and a decline in foreign currency earnings. Growth in Morocco was restrained by the 2015/2016 drought, which adversely affected the agricultural sector, with impacts on private consumption, and also on government spending and inflows of foreign direct investment. This decline notwithstanding, growth in North Africa is forecast to rise to 3.3 per cent in 2017 and 3.5 per cent in 2018, thanks to improved political and economic stability in the subregion and a consequent increase in business confidence (in particular in Egypt

and Tunisia), in inflows of external aid and in large infrastructure projects, despite the continuing political challenges faced by Libya.

C. Structural transformation and labour market performance

18. The structural transformation of Africa over the period 2000-2014 follows a pattern in which increases in GDP per capita were associated with a decline in both the value added and employment shares in the agricultural sector. This process was particularly pronounced in the relationship between employment and GDP per capita, indicating the movement of a significant proportion of labour out of the agricultural sector over the period. This has also been associated with a decline in agricultural productivity growth, from an average of 9.9 per cent over the period 2000-2008 to an average of 4.0 per cent over the period 2009-2014.[1]

19. In the manufacturing sector, manufacturing value added gradually increased as GDP per capita rose in the early 2000s, but then declined at the higher stages of development, indicating the failure of African countries to maintain the sector's growth momentum.[2] This, however, is the only sector where productivity increased, rising from 1.9 per cent in 2013 to 3.3 per cent in 2014, while it declined from 4.4 and 0.96 per cent in 2013 to 2.7 and 0.9 per cent in 2014 in the agriculture and service sectors, respectively. At 3.3 per cent, growth in manufacturing labour productivity is much higher than that of the euro area, which measured 0.9 per cent in 2014 (Conference Board, 2015).

20. Where the services sector is concerned, its value added increased steadily over the early years of the 2000s, as GDP per capita increased, before decreasing steadily in the later stages of development. The share of employment in the sector continued to increase steadily over the period, however. This increase in the share of employment could be supporting the narrative that a greater proportion of labour has been reallocated from the agriculture sector to the services sectors with relatively lower productivity (McMillan and others, 2014). Services productivity has declined from an average of 7.5 per cent over the period 2000-2008 to an average of 3.0 per cent over the period 2009-2014, which is the lowest of the three sectors under consideration.

21. Looking at economic groupings, figure 5 shows that the labour productivity of all the groups is projected to grow at an average of 2.8 per cent in 2016 as the global commodity prices recover and as most of the economies increase their investments in non-oil sectors in an endeavour to diversify their economies. The oil-importing and agricultural commodity exporting countries, however, growing at an average of 2.4 per cent, have been projected to lead the groupings' output per worker growth over the period 2014-2016.

22. Labour productivity is one of the key features underlying the dynamic process behind the structural transformation of African economies. The continent has experienced subdued labour productivity, due primarily to lack of diversification in its countries' economic activities. Output per worker declined from 4.0 per cent in 2014 to 1.2 per cent in 2015 and is projected to grow at 2.3 per cent, which is below the global average growth of 2.7 per cent in 2016.

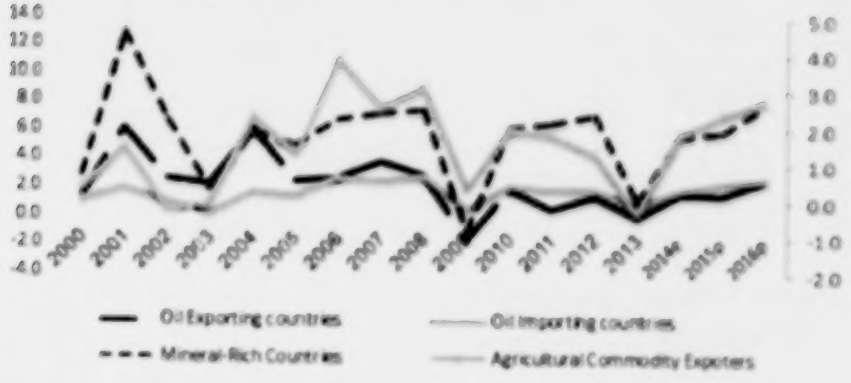
23. Labour force participation and unemployment rates in Africa have settled at around 69.7 and 9.2 per cent respectively since 2014, while male and female unemployment has stabilized around 8.0 and 11.1 per cent respectively since 2014. Women are experiencing higher unemployment rates across all the subregions, but

[1] ECA calculations based on ILO (2016) data.

[2] See 2017 edition of the Economic Report on Africa.

these are more pronounced in North Africa, which displays the worst female unemployment rates of more than 50 percentage points in most countries. Gender gaps in unemployment rates widen further, especially when young people are considered, who registered an average unemployment rate of 16.8 per cent over the period 2014-2016. Despite the economic downturn in West Africa, the growth trend in labour force participation rates is expected to increase. Southern Africa is continuing to enlarge its labour force despite negative effects from lower commodity prices, while stability will prevail in other regions for the coming years. Interestingly, women in some countries in East and Southern Africa have higher labour participation rates than men, for example in Burundi, Malawi, Mozambique and Rwanda.

Figure 5
Productivity growth by country groupings, 2000-2016



Mineral-rich countries and agricultural exporters are on the secondary axis.
Source: ECA calculations based on ILO (2016).
Note: e = estimates, p = projected estimates.

D. Stability of fiscal and current account deficits at the cost of investment cuts

24. The overall fiscal deficit of Africa in 2016 remained the same as in 2015, at 5.9 per cent, as a result of stable fiscal deficits in Algeria and Ethiopia, a narrowing fiscal deficit in Egypt and lower fiscal deficit in Nigeria, countering the widening fiscal deficits in Angola, Kenya and South Africa.

25. Largely driven by low oil prices and increased use of external reserves, the fiscal deficit of oil-exporting countries further widened, from 6.2 per cent in 2015 to 6.5 per cent of GDP in 2016. By contrast, the fiscal deficit of oil-importing countries slightly improved, from 5.6 per cent in 2015 to 5.5 per cent of GDP in 2016. The fiscal deficit of mineral-rich countries was the second highest on the continent, although it declined slightly, from 6.5 per cent in 2015 to 6.1 per cent of GDP in 2016. At the subregional level, North Africa continues to show the largest fiscal deficit in the region, despite the slight decline from 11.7 per cent of GDP in 2015 to 10.7 per cent in 2016.

26. The continent's current account deficit remained stable in 2016, at 7.0 per cent of GDP, with stability also observed in North, Southern and West Africa. At the same time, the current account deficit increased among oil-exporting countries, from 7.7 per cent of GDP in 2015 to 8.2 per cent in 2016. This was offset by current

account balance decreases from 6.3 per cent in 2015 to 6.1 per cent in 2016 among oil importers, and from 8.8 per cent in 2015 to 8.5 per cent in 2016 among mineral-rich countries.

E. Tight monetary policy in most countries

27. Most of the countries, including some of the continent's economic powerhouses, such as Nigeria and Egypt, pursued tight monetary policies to curb the weakening of their currency and the related imported inflation. Central banks raised policy rates to limit the inflationary pressure due to significant currency depreciation (in countries such as Angola, Egypt and others), and the drought-induced rise in food prices (in countries such as Ethiopia and parts of Southern Africa).

28. By contrast, countries such as Algeria, Cameroon, Côte d'Ivoire, Kenya and Morocco maintained loose monetary policy stances over the period. Morocco and Kenya reduced their interest rates to 2.3 and 10 per cent, respectively, taking advantage of subdued inflationary pressures to continue to boost the countries' economic activities and growth, while Algeria reduced its discount rate from 4.0 to 3.5 per cent for the first time in almost a decade, under the pressure of declining liquidity levels due to low oil prices. Most of the countries in West and Central Africa also pursued loose monetary policies, since their common currency (CFA franc) is pegged to the euro. Hence their monetary policies have remained loose, in line with the ultra-loose monetary policy of the European Central Bank.

F. Continued depreciation of domestic currencies amid low commodity prices

29. The persistently low commodity prices over the last couple of years, tightening of monetary policy stances in the United States and large fiscal and current account deficits continued to exert a downward pressure on domestic currencies, leading to further depreciations in most of the big economies in Africa. Countries such as Angola, Egypt, Nigeria and others devalued their currencies in response to high demand for the United States dollar, in the face of declining external reserves due to persistent low oil and commodity prices. As the CFA franc is pegged to the euro, it fluctuates in tandem with movements of the euro against the dollar. The Central Bank of the West African Economic and Monetary Union (WAEMU) held its interest rate steady at 3.5 per cent, as inflation remained below the target rate of 3 per cent. The difference in growth between the United States and the European Union and the rise in United States interest rates will weaken the euro, causing the CFA franc gradually to depreciate.

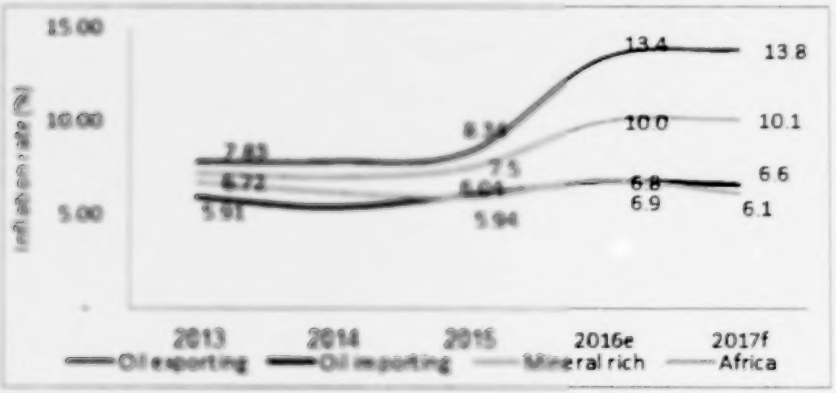
30. The South African rand has been volatile in 2016, with some bouts of appreciation, although by and large it remained subject to depreciations due to domestic policy uncertainty and tight monetary policy in the United States. By contrast, countries such as Ethiopia and Ghana have managed to keep to slight depreciation or maintain currency stability, while the Kenyan shilling has slightly appreciated against its 2015 levels, following the reduced dependence on certain commodity exports, along with healthy external reserves.

G. Increased inflation despite relatively low global commodity prices

31. Overall, inflation on the continent rose to 10 per cent in 2016 from 7.5 per cent in 2015 and is expected to remain at 10.1 per cent in 2017 (figure 6). Domestic supply-side factors (drought impacts on agricultural production), rises in the price

of electricity and currency depreciation together led to the increase in inflation in 2016. Inflation remained relatively high in oil-exporting countries, suggesting the impact of low oil prices due to currency depreciation, along with an increase in regulated prices of electricity that put pressure on inflation in some countries, along with a sharp rise in the prices of food and other forms of energy. Lower oil prices provided some relief, however, and monetary tightening may also have constrained demand-side pressures in most countries.

Figure 6
Inflation by subregion, 2013-2017



Source: ECA calculations based on UNSD SNA (2016) data.
Note: e = estimates, f = forecasts.

II. Continued decline in African trade performance

32. Despite achieving a 17.1 per cent increase in 2011, since then the growth rate of exports from Africa has continuously slowed, declining by 29.6 per cent in 2015 to the lowest rate of all the regions (figure 7). This has come about after the vigorous recovery since 2010 of exports from Africa, which rebounded to their pre-2008 crisis levels mainly thanks, among other factors, to increased agricultural output in most of the countries in East and Southern Africa, increased investment in the mining sector in countries such as Mozambique, the Niger, Sierra Leone and Zambia,[5] and increased demand by China for primary commodities, in particular base metals (IMF, 2015).

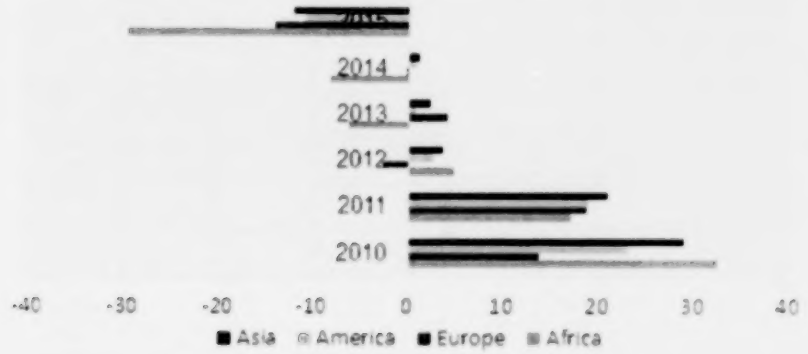
33. Exports by Africa to the world remain poorly diversified and largely dominated by primary commodities, specifically crude oil, gas and petroleum. Indeed, over the period 2010-2015, 55 per cent of African exports to external partners consisted of fuels, with manufactured goods accounting for only 18 per cent. Manufactured goods continue to dominate African imports, however, mainly comprising heavy machinery, automobiles and chemicals. They also continue to constitute the largest share of intra-African trade, averaging some 43 per cent of such trade between 2010 and 2015, although at the global level, their role is marginal, constituting no more than 16 per cent.[6]

34. It is worth noting that, whereas emphasis on the industrialization of Africa is skewed towards the manufacturing sector, the sector's share in total world manufacturing exports remains less than 1 per cent and has been marginally

[5] See Ighobor-Pyle (2015) and UNCTAD (2015).
[6] Authors' computation based on UNCTAD (2016).

declining since 2010. Similarly, the sector's share in the continent's GDP has been slightly but steadily declining since 2010, despite the relative increase in its production. This calls for strategic diversification of the region's export base with increased value addition, to enable it to benefit more from its accrued engagement with emerging markets such as those in Asia.

Figure 7
Exports growth rate by main regions (2010-2015)



Source: ECA calculations based on UNCTAD (2016).

I. Increasing foreign capital inflows

35. Despite the global economic slowdown, the flow of net foreign direct investment to Africa has remained stable, at about 2 per cent of GDP in both 2015 and 2016, partly driven by global economic fragilities and monetary tightening in the United States. The main destinations for such investment in 2016 were Central Africa (Cameroon, the Congo and Gabon), Southern Africa (Mauritius, Mozambique and Namibia) and East Africa (Djibouti, Seychelles and Uganda). Of the subregions, inflows of foreign direct investment were largest in Central Africa (3.7 per cent), followed by Southern Africa (2.8 per cent), East Africa (2.3 per cent), North Africa (1.8 per cent) and West Africa (1.3 per cent).

36. Available data on portfolio investments also show that net portfolio investments deteriorated to $5.3 billion in 2014, compared with $8.2 billion the year before. South Africa, however, as one of the largest recipients of portfolio investments, exhibited a 70 per cent increase in 2015 over both 2013 and 2014 levels. At the same time, a one-third reduction in portfolio investments is reported for Nigeria from its 2014 levels (AfDB, 2016).

37. Official development assistance to Africa has also been stable over recent years, totalling $54 billion in 2014, and rising to $56 and $59 billion in 2015 and 2016, respectively. Total debt increased from 27.8 per cent of GDP in 2015 to 31.1 per cent of GDP in 2016, and is forecast to reach 32.4 per cent in 2017. The fall in international reserves is driven by a decline in net lending in North Africa and oil-exporting countries.

38. Remittances continued their stable flow into African countries, averaging 4.4 per cent of GDP in 2014 and 4.5 per cent over the period 2011-2013. Lesotho

received on average 39.7 per cent of its GDP in remittances over the period 2000-2014. Four other countries (Cabo Verde, the Comoros, the Gambia and Liberia) have received more than 10 per cent of their GDP in remittances over 2000-2014. By contrast, there are 15 countries which have received, on average, less than 1 per cent over the same period. It is worth noting that there are five countries with no data for this period (Central African Republic, Chad, Equatorial Guinea, Mauritania and Somalia), but which together may have received significant amounts of remittances (AfDB, 2016).

IV. African medium-term growth performance: risks and uncertainties

39. A number of internal and external risks could affect the medium-term prospects for Africa. The recent slowdown of global economic growth, economic deceleration in China, the subdued (although improving) performance of the euro area and low oil prices, the depreciation of major African currencies — which, while possibly beneficial for exports, is likely to put pressure on monetary stability through imported inflation — are a concern for African medium-term trade performance. The global economy's weak recovery affects African performance through trade, investment and remittances. Despite the recent increase, low oil prices will continue to weigh on hydrocarbon-exporting countries, although the net effect may be positive for Africa as a whole. The depreciation of major African currencies, while possibly beneficial for exports, is likely to put pressure on monetary stability through imported inflation.

40. The effects of Brexit may slow the global economy, with spillover effects into Africa mainly through trade and financial channels. Trade ties between Africa and the United Kingdom of Great Britain and Northern Ireland may weaken, since some of the trade deals need to be renegotiated through a lengthy process. This may lead to a decline in official development assistance from the United Kingdom. The tight monetary policy followed by the United States also presents a risk over the medium term, which may divert some inflows back to mature markets.

41. Weather-related shocks remain a regional risk, in particular in parts of East and Southern Africa, and could hurt agriculture, which is still the main employer, leading to poor harvests and heightening the risk of inflation through higher food prices. Drought may also affect hydropower generation capacity, threatening efforts by Africa to green its industrialization process. Security in some African countries remains an issue, in particular in Ethiopia, Kenya, Libya and Tunisia, where security concerns have negatively affected the tourism industry. Boko Haram and Al-Shabaab in West and East Africa respectively, and political unrest in some African countries may disrupt domestic economic activities and reduce foreign investment in some countries.

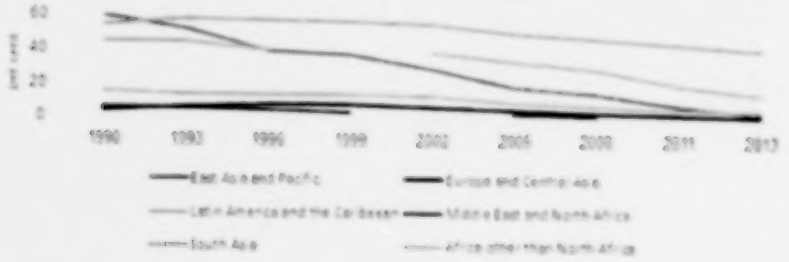
V. Need to link structural change and social development

42. The strong economic growth witnessed in many countries across Africa in recent years has had only a marginal impact on poverty and, in absolute terms, the number of people in extreme poverty stagnated at the 2002 levels.

A. Improvement in some indicators

43. The poverty headcount ratio in Africa increased from 54.3 per cent in 1990 to 55.6 per cent in 2002, but since then it has declined by more than a fourth, falling to 41 per cent in 2013. Overall, poverty in Africa has declined much more slowly than in other regions (figure 8).

Figure 8
Poverty rate at $1.90 a day (2011 PPP), 1990-2013

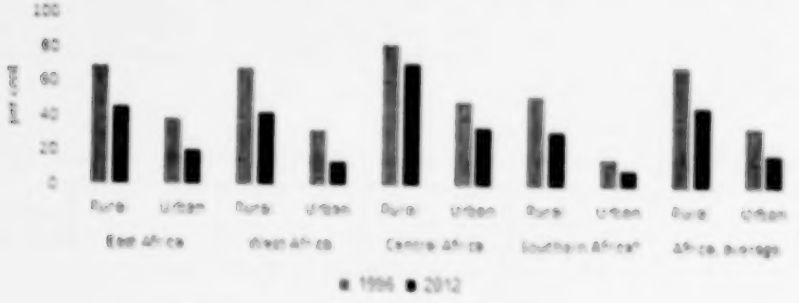


Source: World Bank (2016).

44. Within Africa, poverty declined everywhere and at a faster rate in urban than in rural areas, except in Southern Africa, which has witnessed a marginally faster decline in rural poverty over the period 1996-2012 (figure 9).

45. Over the period 1990-2002, the number of people in extreme poverty increased by 42 per cent, rising from 276 million to 391 million. Since 2002, however, economic growth seems to be having a positive, although slow, impact as the number of people in extreme poverty has remained almost constant, at around 390 million. Still, the percentage of the world's poor that live in Africa has risen from below 15 per cent in 1990, to more than 50 per cent in 2013. Such factors as rapid population growth and delayed demographic transition, the high level of initial rural vs. urban inequality and gender inequality are responsible for the limited impact of economic growth on African performance in reducing poverty.[5]

Figure 9
Rural-urban poverty trends across Africa, 1996-2012



Source: Adapted from Beegle and others (2016).

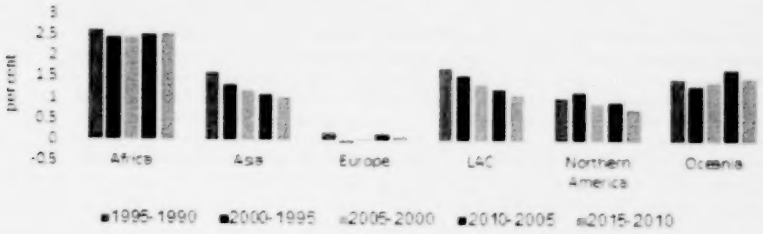
[5] This is also discussed by Chandy (2015).

B. Demographic trends

46. While most of the world has experienced a dramatic decline in both mortality and fertility rates, and therefore in population growth rates, mortality, fertility and population growth rates remain high in Africa. Many demographers have begun to speak of a "stall" in the continent's demographic transition that began in the mid-1990s (Bongaarts, 2008; Goldstone and others, 2014).

47. The population of Africa grew at an average rate of 2.6 per cent per year during the period 1990-2015, more than twice the world average (ECA, 2016). In the same period, Asia and Latin America and the Caribbean regions achieved rapid declines in annual population growth. Not only is the continent's annual population growth rate the highest in the world (figure 10), since 1995, it has even increased marginally, from 2.4 to 2.6 per cent.

Figure 10
Average annual population growth rate, 1990-2015



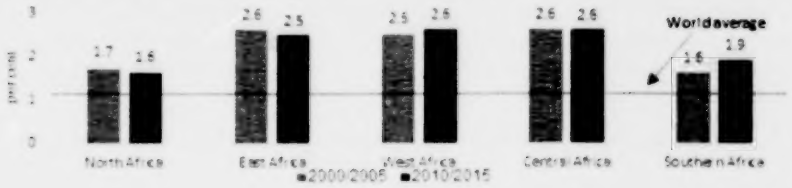
Source: UNDESA (2015).

48. The average annual population growth rate masks vast regional variations, with the average annual population growth high in three subregions (above 2.5 per cent), and increasing in Southern Africa, while declining in North Africa (figure 11). In particular, the populations of Angola, Chad, the Democratic Republic of the Congo, Equatorial Guinea, the Gambia, the Niger and Uganda increased by more than 3 per cent per year. On the other hand, in the small island countries, such as Cabo Verde, Mauritius and Seychelles, along with Lesotho, Morocco and Tunisia, populations grew at around 1.0 per cent per year over the period 2000-2015 (UNDESA, 2015a).

49. Even though the overall population growth rate is slowing, the population of Africa will continue to grow as a result of the existing momentum. Projected changes in population over time can be decomposed into fertility, mortality, migration and momentum effects.[6] In the case of Africa, the fertility component accounts for some three quarters of the projected population increase to 2050 (UNDESA, 2013).

[6] Momentum effects are conditioned by population age structure at the starting point of a projection. In countries undergoing a demographic transition that have a young age profile, population will continue to grow because the birth rate resulting from the large number of women in the reproductive age cohort will exceed the mortality rate.

Figure 11
Average annual population growth across subregions



Source: UNDP (2015).

50. Fertility rates in Africa are falling, but not fast enough, and the gap in fertility rates between Africa and the rest of the world is large and predicted to remain so. The total fertility rate in Africa declined from 6 births per woman in 1990 to 4.4 births per woman in 2014 (World Bank, 2016), although with variations across the subregions. Of the 21 high-fertility countries in the world, with total fertility rates of more than five children per woman, 19 are in Africa. These countries account for around two thirds of the region's population. Projections suggest that, in 2025-2030, the region will account for 14 of the 15 countries with the highest fertility rates in the world (ODI, 2016).

51. Early childbearing is a key contributor to both fertility and high population growth in the region. It also greatly reduces the likelihood of girls continuing their education and limits their opportunities for training and employment. Although fertility in this age range has fallen in most countries, Africa has the world's highest level of adolescent fertility (births per 1,000 women aged 15-19), measuring 98 per 1,000 women over the period 2010-2015, followed by Latin America and the Caribbean at 67 per 1,000 women (UNDESA, 2015b). This, the world's highest adolescent fertility rate, is coupled with its lowest female secondary gross enrolment ratio. Keeping girls in school delays marriage and childbearing. Teenage women are less likely to become mothers when they attend secondary school. The causality also works the other way, and teenage women are less likely to attend secondary school when they become mothers.

C. Relatively high gender disparities exist among African countries

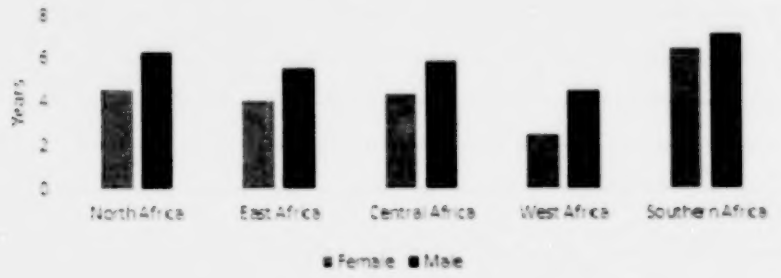
52. Reducing disparities across gender and enhancing women's access to economic opportunities can generate broad productivity gains and improve other development outcomes, including prospects for the next generation. Gender inequality in the labour market results in lost benefits to individuals, households and society. This has significant economic implications, as annual economic losses due to gender gaps in the labour force have been estimated at $60 billion for the African region (Bandara, 2015). Despite significant progress on the continent since 2000 on many fronts, gains have been uneven across countries and subregions, and gender inequality remains a key development challenge in Africa.

53. The gender gap is manifested in access to education. On average, women in Africa receive 4.3 years of schooling, as compared to men, who receive 5.7 years. West Africa is the worst off in this regard, with girls on average having 2.5 years of schooling, or two years less than that received by boys (figure 12). The average gender gap in mean years of schooling is 1.4 years, although in Algeria, the Democratic Republic of the Congo, Equatorial Guinea, Liberia and Togo, the gender disparity in mean years of schooling ranges between 3 and 3.3 years. In the Niger,

girls on average receive less than one year of schooling. This tallies with the fact that, in the Democratic Republic of the Congo, the Niger and Mali, more than half of girls between the ages of 15 and 19 are married (AfDB, 2015), thereby seriously limiting their career prospects.

54. Gender gaps in education have been narrowing but literacy rates for women continue to lag behind those of men. Africa (other than North Africa) records the lowest youth literacy rates, and boys are more likely to be able to read and write than girls. Despite the progress achieved since 2000, the female-to-male literacy ratio for Africa is only 80:100, far below the world average of more than 90:100 (AfDB and others, 2016). Of all the continents, Africa has the widest gap in literacy levels between girls (75.3 per cent) and boys (81.5 per cent): in other words, boys are better off by 6.2 per cent. The performance of the region reflects serious disparities in access to quality basic education and literacy opportunities within the countries.

Figure 12
Gender gap in mean years of schooling by subregion, 2014



Source: Compiled using data from UNDP (2015).

D. Africa expected to be predominantly urban by 2050

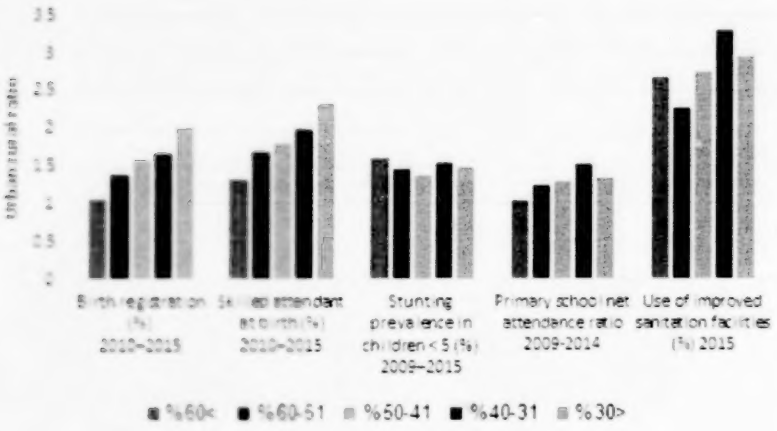
55. Africa is the fastest urbanizing region in the world, although with the lowest proportion of urban population. Close to 60 per cent of people in Africa still live in rural areas. It is estimated that, by 2025, more than half of the population of Africa will live and work in urban areas, compared to the levels of 14.5 per cent in 1950, 28 per cent in 1980 and 34 per cent in 1990. By 2050, Africa will be a predominantly urban continent (UN-Habitat, 2014).

56. The average annual rate of urban growth over the period 2010-2015 was estimated at 3.6 per cent, much higher than in other regions — in China the rate was 2.6 per cent, in Latin America 1.6 per cent, and in Europe 0.4 per cent. Not all countries are urbanizing at the same rate, however: the rate is fastest in those which are least urbanized.

57. Urbanization fosters economies of scale and agglomeration, which in turn are found to spiral economic growth (World Bank, 2009). In almost every country in the world, average living standards in urban areas are superior to those in rural areas. This remains the norm regardless of national income levels, and is usually maintained throughout the development process, as countries transform from predominantly rural and agrarian economies to more urbanized economies with larger industrial and service sectors. In Africa, the size of the urban-rural welfare gap varies a great deal across countries, with larger gaps in countries that are less

urbanized. For most countries, mean consumption in urban areas is two to three times larger than that in rural areas. It ranges from 1.2 in Madagascar and the United Republic of Tanzania to over 2.8 in Uganda and 3.5 in Burkina Faso. Overall, there is a strong positive cross-sectional correlation between the urban-rural consumption ratio and GDP per capita (Fritz and others, 2008).

Figure 13
Urban-rural differentials on various indicators by extent of urbanization, 2010-2015



Source: Compiled using data from UNICEF (2016).

58. The urban-rural discrepancy usually diminishes with urbanization. But there is little urban-rural convergence in access to improved drinking water sources, even in highly urbanized countries (figure 13). In the least urbanized countries, with urban population shares of less than 30 per cent, access to improved drinking water in towns and cities is around 9-29 percentage points higher than in rural areas. Highly urbanized countries in Africa, however, such as the Congo and Gabon, exhibit a 50-60 percentage point difference, which runs counter to the global trend, whereby in countries with high levels of urbanization there is virtually no difference between urban and rural areas in terms of access to basic services.

VI. Conclusion and policy implications

59. The robust growth experienced by Africa over the years since 2000 has weakened markedly, falling to 1.7 per cent, the lowest rate since the beginning of the twenty-first century. The subdued performance in the global economy and slow growth in China, coupled with headwinds on the domestic front, have sown instability in the economic performance of African countries. Slow global growth means reduced demand for goods and services from Africa and reduced capital inflows and investments, suggesting the need for policies and strategies that would support growth through increased consumption, investment and trade.

60. Recent developments in the global economy demonstrate that the dependence of Africa on commodity exports is not sustainable for the continent's growth. The volatility in commodity prices must be addressed by countercyclical fiscal policies and strategies that would support and enhance the structural transformation of African economies. It also calls for improvement of the enabling environment (both

regulatory and operational) for businesses and for programmes to attract foreign investment. The decline in both global demand and commodity prices suggests the need for diversification in African economies and efforts to foster the commodities engagement into value addition through commodity-based industrialization, leading to the structural transformation of these economies. Diversification is widely believed to improve macroeconomic stability, reduce volatility, ensure a more reliable growth trajectory by unlocking production in new sectors, and assist the reallocation of resources to more productive activities.

61. There is need to build the continent's infrastructure, to ensure reliable power supply and efficient transport networks, and to increase investment in research and development, thereby significantly boosting productivity in terms of production efficiency, long-term growth and competitiveness in many African countries.

62. The weakening of domestic currencies, rising interest rate spreads on sovereign debt, and higher volatility in capital inflows from developed and emerging markets, coupled with the instability in the current global economic environment, impede the continent's ability to tap into finance in the international capital market. Accordingly, the need to finance African infrastructure deficits (as one of the priorities of the structural transformation agenda for Africa) compels African countries to explore innovative ways of financing.

63. Women have benefited from growth in Africa, albeit slowly. The big push for universal education over the last 20 years has helped get all children to school and gender parity has almost been achieved at the primary education level. Numerous gains notwithstanding, gender inequality remains a key development challenge in Africa. Policymakers should combine long-term development programmes, such as the provision of social infrastructure and improving the status of women, with short term interventions such as meeting the unmet need for family planning and awareness creation. Moreover, urbanization is increasing in Africa and, unlike global trends, urban-rural differentials in welfare and living standards do not appear to be on the decline. Investing in the development of rural-urban economic linkages, including value chains processing agricultural products and other natural resources, will help to ensure that urban development goes hand-in-hand with rural development.

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